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TD Economics

Data Release: The U.S. economy grew 1.0% in Q4, slightly stronger than the first estimate

- The second estimate of last year's fourth quarter real gross domestic product (GDP) indicated that the U.S. economy grew by 1.0% q/q annualized, a bit stronger than the 0.7% first release estimate. The revision was of equal magnitude, but in the opposite direction, than the consensus expectation, which called for a 0.4% print.

- Most of the revision (+0.3pp) was related to a smaller than previously reported drawdown in private non-farm inventories. Net exports also contributed more to headline growth last quarter than previously reported due to the downward revision to the import of goods

- On the other hand, private consumption grew less than previously reported, contributing 1.4pp or 0.1pp less than reported in the advance estimate. There was also a downward revision to state and local government investment which now is estimated to have contributed 0.1pp less than reported a month ago.

Key Implications

- While the revision was to the upside the new data does not change our 2016 outlook for the U.S. economy, with the updated numbers merely suggesting less inventory investment this quarter. Ultimately, transitory factors such as the inventory drawdown and the contraction in energy-related investment acted to hold back growth last quarter. While the market turmoil earlier this year poses a risk of a broader slowdown in global economic growth than some of the backward-looking economic indicators are dictating, we remain firm in our view that the U.S. economy will continue to expand, with reduced slack continuing to increase inflationary pressures and providing sufficient evidence to Federal Reserve officials to tighten monetary policy twice more later this year.

- Our view appears to be corroborated by recent monthly indicators which are suggesting a pick-up in growth thus lending some comfort to our outlook. Weakness in the manufacturing sector appears to be beginning to subside as new orders for durable goods ex-transportation strengthen and industrial production is ticking up. Moreover, retail sales are robust and automobile sales remain strong, with both likely supported by further labor market improvement, helping inflation gradually rise back to target. Although new housing data disappointed for January, existing home sales exceeded consensus expectations, further reinforcing our narrative of the recovery in the U.S. housing market gaining steam in 2016. Overall the U.S. economy is on track to grow above trend this year despite substantial external headwinds.

- The January personal income and outlays data later this morning will provide some further guidance on the pace of economic expansion in the U.S. this quarter.

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